**Testimony to
the House Budget Committee**

**Submitted by U.S. Rep. Adam B. Schiff
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Chairman Nussle, Ranking Member Spratt, and Members of the Committee, I appreciate the opportunity to testify before your committee today as a member of the freshman class of the 107th Congress.

We are at a critical juncture in our nation's history. The last eight years have brought enormous prosperity to this country. We have had some of the lowest unemployment in decades, the highest rate of home ownership, the longest period of uninterrupted growth -- the list of superlatives goes on and on.

The benefits of this economy did not reach everyone, but they nearly did. More effective than any government program, the nation's bustling growth meant the annual "Misery Index" of unemployment and inflation combined was lower than at any point since the 1960s.

Not only did the prosperity mean a higher standard of living for most Americans, it meant that our nation got its fiscal house in order. We went from a period of spiraling deficits, poor market confidence and crushing debt service to the unthinkable--surpluses.

Well-respected budget analysts who wrote books just a short time ago with titles like "Why We Will Never Balance the Budget" suddenly found themselves changing the titles of the reprints, not to mention the text.

No one predicted the dramatic growth in our economy. No one foresaw the size of our surplus. Even a year ago, the Congressional Budget Office projected a 10-year surplus of $3.15 trillion. Now the figure is $5.5 trillion.

And this is precisely the problem: Who can really say whether the surpluses will continue for the next five or 10 years? And yet many in Washington would have us bet the farm that they will.

Whether it is mammoth new spending, or mammoth new tax cuts, or a combination of the two, any expenditure plan that presupposes a robust economy and ever larger surpluses over the next decade is almost certain to send us back to the days of deficit spending and fiscal irresponsibility.

In the late 1980s and early 1990s, when deficits were high and the debt service was enormous, it was difficult to muster the political will to control spending and aggressively pay down the national debt. Even with enormous discipline, government's ability to influence economic cycles has its limitations--the private sector is the true determinant of growth.

But if any change in governmental policy can be attributed to hastening the end of the last recession and spurring our present success, it was the decision of Congress and the last administration to balance our books and pay our bills.

Now that we are in an era of surpluses -- may they last forever -- it is no less difficult and no less important to maintain our fiscal discipline and continue paying down our debt. We can and should return a portion of our surplus to taxpayers through tax cuts that will stimulate our economy and eliminate the inequities of the marriage penalty and estate taxes. We can and should make a greater investment in education and health care and strengthen our national defense. But we must make these expenditures in a balanced and thoughtful way that maintains our fiscal discipline, continues to pay down our debt and does not rely on rosy and unrealistic long-term projections.

I am proud to have joined the Blue Dogs, a group that has never lost sight of the importance of a strong fiscal policy. I support the Blue Dog philosophy of advocating a hawkishness on the debt and a 50-25-25 budget framework that allocates 50% of the surplus to attacking the national debt and the remaining 50% to equal division between tax cuts and new investment. This framework reassures financial markets of the nation's resolve to maintain fiscal discipline; preserves the resources to strengthen Social Security and Medicare; and provides flexibility in the event of emergencies or should projected surpluses prove illusory.

One method of further assuring that our expenditures do not put us on the path back to deficit spending would involve phasing in a long-term tax plan or spending measure, or pegging its growth to surplus or debt targets. This approach, suggested by Federal Reserve Chairman Alan Greenspan in recent testimony before the Senate Budget Committee, is not unlike that adopted by California. Legislation I co-authored in Sacramento last session enacted major cuts to the vehicle license fee and pegged additional cuts to the growth in revenues. When revenues grew even faster than contemplated by the bill, we passed subsequent legislation to accelerate the tax cuts further.

I look forward to working with our new president on a budget that meets the country's needs for investment and tax relief and one that keeps the economy prospering with a sensible fiscal policy.

The Blue Dogs have reached out to the president in an effort to work on these issues in a bipartisan way -- and he has reached back. But in the process we would be well-advised to keep Greenspan's caution in mind and "resist those policies that could readily resurrect the deficits of the past and the fiscal imbalances that followed in their wake."

Mr. Chairman, once again, I appreciate the opportunity to testify today, and I am happy to answer any questions the Committee may have.